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J. J. NEWBERRY CO.

ANNUAL REPORT

for the Year

1948

PMM

J. J. NEWBERRY CO.

245 FIFTH AVENUE

New York

OFFICERS

J. J. NEWBERRY	<i>Chairman of the Board</i>
E. A. NEWBERRY	<i>President</i>
J. E. NELSON	<i>Vice-President</i>
F. R. SMITH	<i>Vice-President</i>
J. E. HAWES	<i>Vice-President</i>
W. P. HUKILL	<i>Vice-President</i>
F. S. NEWBERRY	<i>Vice-President and Assistant Secretary</i>
W. C. STRAUS	<i>Treasurer</i>
H. M. WILLGOHS	<i>Secretary and Controller</i>

DIRECTORS

J. J. NEWBERRY		E. A. NEWBERRY
J. E. NELSON	J. E. HAWES	F. R. SMITH
J. H. EWEN	F. S. NEWBERRY	ANNA C. NEWBERRY
W. P. HUKILL	C. T. NEWBERRY	W. C. BAKER
J. J. NEWBERRY, JR.	W. C. SCHULZ	M. G. PALLISTER

TRANSFER AGENT	<i>Corporation Trust Co., New York</i>
REGISTRAR	<i>Guaranty Trust Co., New York</i>
GENERAL COUNSEL	<i>Pallister & Pallister</i>
AUDITORS	<i>Peat, Marwick, Mitchell & Co.</i>

TO OUR STOCKHOLDERS:

ON BEHALF OF THE BOARD OF DIRECTORS we are pleased to present herewith THE FINANCIAL STATEMENTS of the Company for the year ending December 31, 1948 together with the report thereon of Peat, Marwick, Mitchell & Co., independent public accountants.

SALES:

In 1948 sales reached another all time high figure, totaling \$134,785,360 compared with 1947 sales of \$117,860,227, an increase of \$16,925,133 or 14.3%.

EXPANSION PROGRAM:

During the year 1948 two new stores were opened. Three stores were closed because of termination of leases in locations which did not justify continuance of operation. Throughout the year twenty stores were enlarged and modernized, and five stores were thoroughly renovated and modernized without enlargements.

These improvements were made at an expenditure of approximately \$5,200,000 including new fixtures, equipment and increased stocks of merchandise. At the close of 1948 there were in operation 484 stores in 45 states.

FUTURE MODERNIZATION AND EXPANSION:

We will continue to improve and enlarge existing stores and add a few new stores throughout 1949 and subsequent years.

Fourteen stores are presently in process of improvement and enlargement to be completed during 1949. Work will be started in 1949 on thirty additional stores to provide much needed enlargement and modernization. Six stores in new locations will be opened during 1949.

TWENTY YEAR \$10,000,000 LOAN:

In August 1948, the Company completed arrangements for a ten million dollar (\$10,000,000) loan maturing in August 1968, a period of twenty years.

It was thought advisable to borrow this money to advance the work of maintaining the Company's stores on high standards both from the standpoint of size and ability to render improved service to our customers.

The interest rate on this loan is 2.90%. Sinking Fund payments are to begin after five years have elapsed on a very comfortable rate of amortization.

During 1948 only \$7,500,000 of this money was borrowed with arrangements made to take the remaining \$2,500,000 by July 1, 1949.

EARNINGS:

Net profits for the year after providing for Federal Income Taxes, amounted to \$7,297,632.

This equaled \$4.55 on each share of common stock outstanding after providing for dividends paid to preferred stockholders compared with \$4.30 per share of common stock earned in 1947.

DIVIDENDS:

During 1948 the Company paid dividends to its common and preferred stockholders totaling \$3,418,578.

INVENTORY:

Inventories as of December 31, 1948 totaled \$21,897,593. This compared with \$17,070,990 at the close of 1947. All merchandise was inventoried at cost or market price, whichever was the lower. The increase in the inventory investment was caused principally by enlarged stores and broader assortments of merchandise.

SALARIES, WAGES AND PAYMENTS FOR EMPLOYEE BENEFITS:

In 1948 the Company paid out in salaries, wages and employee benefits \$23,540,037 distributed as follows:

Salaries and Wages.....	\$22,614,913
Retirement Pension, Group Life Insurance, Hospitalization, Surgery, Accident and Sickness Insurance....	450,919
Unemployment Insurance and Federal Old Age Benefits.	474,205

TAXES:

Taxes of all description (not including Federal Old Age Benefits and State Unemployment Insurance) paid during the year to Federal, State, County and Municipal authorities, totaled \$5,523,905.

This sum equaled \$3.63 per share of outstanding common stock of the Company.

In addition to the above taxes, the Company collected an additional amount totaling \$4,710,956 in sales, excise and withholding taxes for Federal, State and Local Governments.

A large number of people was required to keep records and make payments of these taxes all of which was done at the expense of the Company.

DEPRECIATION:

Depreciation on buildings, leasehold improvements, fixtures and equipment has been computed on the basis of the original cost as required by the U. S. Treasury Department for tax purposes. Due to current high replacement costs, this amount of depreciation is insufficient to replace these assets after they have served their useful life. Computations on an estimated basis indicate that if depreciation for the year 1948 had been based on current replacement costs, the net earnings of the Company would have been approximately \$450,000 less than the amount reported, or \$0.29 per share of common stock.

FINANCIAL CONDITION:

The Company ended 1948 in a strong financial position. Current assets as of December 31, 1948 were \$40,871,239 compared with \$32,243,427 at the close of 1947.

Current liabilities as of December 31, 1948 were \$8,065,743 compared with \$6,425,027 at the end of 1947.

PERSONNEL:

The Board of Directors and Management are grateful for another year of successful operation. Many thousands of men and women connected with the Company had a very important part in accomplishing these splendid results. We extend our heartiest congratulations and appreciation for their excellent work and ever faithful and loyal services.

During 1948 the Company established a plan for awarding ten and twenty year service pins of special design in recognition of length of service for those associated with the business.

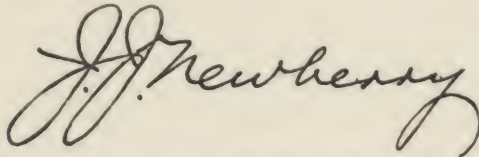
It was a pleasure for the Management to award 674 ten year pins, and 155 twenty year pins to that number of individuals who have expressed pride in the possession and the wearing of same.

The Management is very grateful for and appreciative of the wonderful spirit of friendliness and loyalty existing among all executives and associates throughout our widely scattered organization which adds much to the pleasure of everyone connected with the operation of the business.

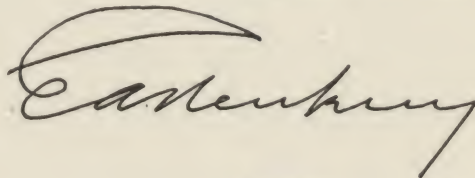
1949 EXPECTATIONS:

As of the present date, the new year has started off very encouragingly. It is impossible to predict the full year's tempo of business. However, we are very optimistic in believing that our Company can look forward to another record breaking year of business and earnings notwithstanding increasing expenses and very keen competition.

Very truly yours,

A handwritten signature in cursive script, reading "J. J. Newberry". The signature is fluid and elegant, with a large, sweeping initial "J".

Chairman of the Board

A handwritten signature in cursive script, reading "E. A. Newberry". The signature is fluid and elegant, with a large, sweeping initial "E".

President

March 7, 1949.

ACCOUNTANTS' REPORT

To the Board of Directors,
J. J. NEWBERRY Co.,
New York, N. Y.

We have examined the consolidated balance sheet of J. J. Newberry Co. and subsidiaries as of December 31, 1948 and the related statements of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of J. J. Newberry Co. and subsidiaries at December 31, 1948 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co. ✓

New York, N. Y.
March 4, 1949.

J. J. NEWBERRY
AND SONS
CONSOLIDATED
AS OF DECEMBER 31,
IN COMPARISON WITH

A S S E T S

	December 31, 1948	1947
CURRENT ASSETS:		
Cash in banks, on hand and in transit.....	\$12,100,539	\$12,764,299
Miscellaneous accounts receivable.....	208,910	361,527
U. S. Treasury Savings Notes, less amount deducted from Federal tax liability (contra)....	—	1,881,437
Other U. S. Government securities—at cost plus accrued interest (approximate market).....	6,664,197	165,174
Merchandise, at the lower of cost or market...	21,897,593	17,070,990
TOTAL CURRENT ASSETS.....	40,871,239	32,243,427
MISCELLANEOUS INVESTMENTS AND ADVANCES (at cost).....	548,539	525,532
PROPERTY AND EQUIPMENT:		
Land, buildings and improvements, at or below cost.....	12,784,142	11,168,069
Furniture and fixtures, at cost.....	14,811,970	13,141,882
	27,596,112	24,309,951
Less Reserves for depreciation.....	9,690,665	9,071,838
	17,905,447	15,238,113
Alterations and improvements to leased premises, at or below cost.....	7,356,092	5,823,458
Less Reserve for amortization.....	3,092,021	2,839,256
	4,264,071	2,984,202
TOTAL PROPERTY AND EQUIPMENT (net) ..	22,169,518	18,222,315
PREPAID EXPENSES AND DEFERRED CHARGES:		
Unexpired insurance, supplies, prepaid rents, taxes, pension premiums, etc.....	913,333	781,445
Improvements to leased properties (recoverable) and miscellaneous deferred charges.....	176,326	115,584
TOTAL PREPAID EXPENSES AND DEFERRED CHARGES.....	1,089,659	897,029
	<u>\$64,678,955</u>	<u>\$51,888,303</u>

NOTE:

The 2.90% Sinking Fund Notes due August 15, 1968, authorized amount \$10,000,000, not later than July 1, 1949, may be prepaid at any time in whole or in part at the option of the Company at 103% if prepaid prior to August 15, 1949 and thereafter to maturity on a declining premium basis as an optional Sinking Fund payment, without premium, an amount not exceeding 5% of the principal amount of the notes.

Under the terms of the note agreement the Company is required to pay as Sinking Fund payments, beginning in 1953, a percentage of the original principal amount of the notes as follows: 3% in 1953, 3½% in the years 1954 to 1957 inclusive, and 4% in the years 1958 to 1967 inclusive.

Of the Surplus at December 31, 1948, the amount available for distribution to stockholders was \$1,000,000.

ERRY CO.

DIARIES

ALANCE SHEET

ER 31, 1948

DECEMBER 31, 1947

LIABILITIES

	December 31, 1948	1947
CURRENT LIABILITIES:		
Accounts payable, bonuses and accrued liabilities	\$ 6,246,624	\$ 6,270,275
Provision for Federal income taxes (less U. S. Treasury Savings Notes—1948, \$3,000,000; 1947, \$4,288,563).....	1,631,105	—
Dividend payable on preferred stock—due February 1 of following year.....	93,752	93,752
Mortgage obligations due within one year.....	94,262	61,000
TOTAL CURRENT LIABILITIES.....	8,065,743	6,425,027
MORTGAGES PAYABLE ON REAL ESTATE (less amounts due within one year classified as current liabilities).....	2,174,644	2,480,815
RESERVE FOR SELF-INSURANCE (fire and burglary)..	371,839	294,786
2.90% SINKING FUND NOTES DUE AUGUST 15, 1968 (See Note).....	7,500,000	—
CAPITAL STOCK AND SURPLUS:		
Cumulative Preferred Stock, par value \$100.00 per share:		
Authorized, 125,000 shares, issuable in series.		
Issued, 100,000 shares, 3¾% Series (redeemable at \$104.00 per share to August 1, 1949 and on a decreasing scale to August 1, 1953 and at any time thereafter at \$101.50 per share, plus accrued dividends in each case)	10,000,000	10,000,000
Common Stock, no par value:		
Authorized, 2,000,000 shares.		
Issued, 1,581,256 shares.....	5,208,572	5,208,572
Earned Surplus (see Note).....	31,661,119	27,782,065
	46,869,691	42,990,637
Less, Cost of 59,472 shares of common stock in treasury.....	302,962	302,962
TOTAL CAPITAL STOCK AND SURPLUS.....	46,566,729	42,687,675
	\$64,678,955	\$51,888,303

0, of which \$7,500,000 had been issued at December 31, 1948 and the balance issuable n of the Company at their principal amount plus accrued interest and a premium of n basis. The Company also has the option annually on August 15 in each year to pay of the original principal amount of the notes.

g Fund payments, without premium, annually on August 15 of each year, beginning each of the years 1953 to 1957 inclusive and increased percentages, to a maximum of

holders was limited to \$4,879,054 under restrictive provisions of the note agreement.

J. J. NEWBERRY CO.
AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED PROFIT AND LOSS AND SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1948
IN COMPARISON WITH THE YEAR ENDED DECEMBER 31, 1947

PROFIT AND LOSS

	Year ended December 31, 1948	1947
Sales.....	\$134,785,360	\$117,860,227 ✓
Cost of Merchandise Sold and Operating Expenses, including general and administrative expenses and after deducting income from rentals.....	121,831,761	105,713,280
	12,953,599	12,146,947
Other Income (net).....	94,186	92,747
	13,047,785	12,239,694
Deduct:		
Interest on sinking fund notes (1948), mortgages and other.....	196,798	93,117
Provision for depreciation and amortization....	1,026,855	966,736
	1,223,653	1,059,853
	11,824,132	11,179,841
Provision for Federal Income Taxes.....	4,526,500	4,260,000
	Net income for the year transferred to Earned Surplus.....	\$ 7,297,632 \$ 6,919,841 ✓

EARNED SURPLUS

Balance at beginning of year.....	\$ 27,782,065	\$ 24,280,802
Net Income for the year.....	7,297,632	6,919,841
	35,079,697	31,200,643
Less Dividends:		
3¾% Cumulative Preferred Stock.....	375,010	375,010
Common Stock—\$2.00 per share.....	3,043,568	3,043,568
	3,418,578	3,418,578
Balance at end of year (see Note to Balance Sheet)	\$ 31,661,119	\$ 27,782,065

RECORD OF SALES AND EARNINGS

Year	Number of Stores	Sales	Earnings per share on Common Stock Outstanding
1912.....	1	\$ 32,383	N O T
1913.....	2	42,184	
1914.....	3	92,640	
1915.....	5	116,009	
1916.....	5	151,465	I N C O R P O R A T E D
1917.....	6	149,466	
1918.....	7	276,449	
1919.....	17	502,445	
1920.....	17	751,984	
1921.....	26	1,157,234	
1922.....	33	1,750,066	
1923.....	51	3,564,947	
1924.....	68	5,114,339	
1925.....	86	6,897,414	
1926.....	112	9,985,074	*3.06
1927.....	151	15,069,159	3.65
1928.....	210	20,609,366	4.62
1929.....	279	27,789,369	†3.15
1930.....	335	30,187,392	2.22
1931.....	379	31,146,802	1.73
1932.....	406	33,121,670	1.07
1933.....	417	35,146,574	3.06
1934.....	431	41,054,218	5.38
1935.....	450	43,388,611	4.94
1936.....	461	48,376,510	6.03
1937.....	469	50,315,454	5.27
1938.....	476	49,040,697	4.04
1939.....	479	52,272,953	5.44
1940.....	486	55,879,580	4.53
1941.....	488	64,228,956	6.40
1942.....	492	77,313,152	6.70
1943.....	491	91,028,763	7.58
1944.....	491	95,861,688	7.39
1945.....	488	100,868,759	†1.93
1946.....	487	113,228,967	4.74
1947.....	485	117,860,227	4.30
1948.....	484	134,785,360	4.55

* Stock split-up 4 shares for 1 in 1926.

† Stock split-up 3 shares for 2 and rights to subscribe to 10% of holdings issued May 1st, 1929.

‡ Stock split-up 4 shares for 1 in 1945.

STORE LOCATIONS

Alabama—3

Birmingham
Dothan
Montgomery

Arizona—3

Douglas
Nogales
Phoenix

Arkansas—2

Hot Springs
Pine Bluff

California—69

Alhambra
Bakersfield
Bell
Bellflower
Beverly Hills
Brawley
Burbank
Compton
Covina
Downey
El Centro
Fresno
Glendale
Hanford
Hollywood
Huntington
Park (2)
Inglewood
Long Beach (2)
Los Angeles (16)
Marysville
Merced
Modesto
North Hollywood
Oakland
Ocean Park
Ontario
Pasadena
Pomona
Porterville
Redlands
Redondo Beach
Salinas
San Bernardino
San Francisco
San Jose
San Mateo
San Pedro (2)
Santa Ana
Santa Barbara
Santa Cruz
Santa Monica (2)
Santa Rosa
So. Pasadena

Calif. [Contd.]

Studio City
Torrance
Vallejo
Van Nuys
Ventura
Visalia
Whittier

Colorado—4

Denver
Fort Collins
La Junta
Pueblo

Connecticut—4

Hartford
New Haven
Wallingford
Winsted

Florida—2

Pensacola
Tampa

Georgia—3

Atlanta
Columbus
Macon

Idaho—4

Boise
Lewiston
Pocatello
Twin Falls

Illinois—12

Alton
Belleville
Canton
Collinsville
Dixon
East St. Louis
Granite City
Litchfield
Macomb
Peoria
Rock Island
West Frankfort

Indiana—16

Auburn
Connersville
Decatur

Indiana [Contd.]

East Chicago
Gary
Goshen
Hammond
Hartford City
Indiana Harbor
Jasper
Jeffersonville
Marion
Martinsville
New Albany
New Castle
Whiting

Iowa—5

Boone
Iowa Falls
Newton
Ortumba
Webster City

Kansas—3

Chanute
Coffeyville
Parsons

Kentucky—25

Bardstown
Central City
Corbin
Cynthiana
Danville
Elizabethtown
Frankfort
Glasgow
Harlan
Harrodsburg
Hazard
Henderson
Lawrenceburg
Lebanon
Louisville
Mayfield
Mt. Sterling
Owensboro
Paris
Pineville
Richmond
Shelbyville
Somerset
Versailles
Winchester

Louisiana—1

Lake Charles

Maine—22

Bangor
Bath
Biddeford
Calais
Caribou
Dover-Foxcroft
Eastport
Ellsworth
Farmington
Fort Fairfield
Fort Kent
Houlton
Lewiston
Lincoln
Madawaska
Mars Hill
Millinocket
Norway
Presque Isle
Rockland
Rumford
Van Buren

Maryland—6

Brunswick
Elkton
Frederick
Hagerstown
Pocomoke City
Salisbury

Massachusetts—29

Amesbury
Attleboro
Boston
Brockton
Bridgewater
Chelsea
Clinton
Fall River
Falmouth
Framingham
Franklin
Gardner
Haverhill
Holyoke
Lawrence
Leominster
Lowell
Maynard
Newburyport
North Adams
North Attleboro
Pittsfield
Rockland
Stoughton
Wakefield
Ware
Whitman
Woburn
Worcester

Michigan—13

Alma
Calumet
Charlotte
Coldwater
Houghton
Iron Mountain
Iron River
Ishpeming
Ludington
Manistee
Midland
Port Huron
Three Rivers

Minnesota—2

St. Cloud
Duluth

Mississippi—1

Meridian

Missouri—12

Cape Girardeau
Columbia
Excelsior Spgs.
Hannibal
Jefferson City
Joplin
Maplewood
Poplar Bluff
St. Louis (3)
Springfield

Montana—2

Billings
Great Falls

New Hampshire—15

Berlin
Claremont
Concord
Derry
Dover
Franklin
Keene
Laconia
Littleton
Manchester
Nashua
Plymouth
Portsmouth
Rochester
Tilton

STORE LOCATIONS—Continued

New Jersey—17

Asbury Park
Atlantic City
Boonton
Bridgeton
Caldwell
Dover
Freehold
Hackettstown
Hammononton
Keyport
Long Branch
Millville
New Brunswick
Newton
Red Bank
Vineland
Wildwood

New Mexico—2

Las Vegas
Raton

New York—56

Albany
Albion
Amsterdam
Auburn
Ballston Spa
Batavia
Bath
Buffalo
Canandaigua
Canton
Carthage
Catskill
Cobleskill
Cohoes
Cooperstown
Corning
Cortland
Elmira
Endicott
Gloversville
Gouverneur
Greenpoint
Herkimer
Hornell
Hudson
Ithaca
Johnstown
Kingston
Little Falls
Lockport
Lyons
Malone

N. Y. [Contd.]

Massena
Middletown
Niagara Falls
Northville
Nyack
Ogdensburg
Oneonta
Ossining
Owego
Peekskill
Penn Yan
Perry
Port Jervis
Poughkeepsie
Salamanca
Saranac Lake
Saratoga Springs
Saugerties
Ticonderoga
Tupper Lake
Walton
Watertown
Wellsville
Whitchall

N. Carolina—5

Asheville
Monroe
Oxford
Reidsville
Statesville

North Dakota—2

Fargo
Grand Forks

Ohio—28

Ashland
Ashtabula
Bowling Green
Bryan
Bucyrus
Cambridge
Chillicothe
Cincinnati
Cleveland (3)
Columbus
Conneaut
Coshocton
East Palestine
Findlay
Fremont
Hamilton
Ironton
Lancaster

Ohio [Contd.]

Lima
Massillon
New Philadelphia
Painesville
Tiffin
Warren
Wooster
Zanesville

Oklahoma—3

Okmulgee
Sapulpa
Tulsa

Oregon—6

Astoria
Bend
Eugene
Klamath Falls
Medford
Portland

Pennsylvania—48

Ashland
Berwick
Bloomsburg
Bradford
Carbondale
Chambersburg
Coalport
Coatesville
Danville
Downingtown
Du Bois
Ephrata
Forest City
Freeland
Homestead
Jersey Shore
Kulpmont
Lansford
Lewisburg
Lock Haven
McAdoo
Mahanoy City
Mauch Chunk
Middletown
Milton
Mt. Carmel
Nanticoke
Newport
Northampton
Olyphant
Oxford

Penn. [Contd.]

Philadelphia
Phoenixville
Pottstown
Renovo
Royersford
Sayre
Scranton
Shamokin
Shenandoah
Somerset
Stroudsburg
Sunbury
Tamaqua
Towanda
Waynesboro
Wellsboro
West Chester

Rhode Island—4

Newport
Providence
Warren
West Warwick

So. Carolina—3

Camden
Chester
Rock Hill

South Dakota—8

Aberdeen
Huron
Lead
Mitchell
Rapid City
Sioux Falls
Vermillion
Yankton

Tennessee—2

Gallatin
Jellico

Texas—4

Amarillo
Denison
El Paso
Texarkana

Utah—1

Ogden

Vermont—7

Barre
Bellows Falls
Newport
Rutland
Springfield
White River
Junction
Windsor

Virginia—13

Bedford
Clifton Forge
Culpeper
Farmville
Fredericksburg
Front Royal
Lexington
Norfolk
Salem
South Boston
Staunton
Winchester
Wytheville

Washington—7

Bellingham
Everett
Longview
Spokane
Walla Walla
Wenatchee
Yakima

West Virginia—3

Charleston
Charles Town
Martinsburg

Wisconsin—5

Fond Du Lac
Kenosha
Oshkosh
Rhineland
Superior

Wyoming—2

Cheyenne
Rock Springs

Figures in parentheses indicate the number of stores in cities where more than one store is in operation.

